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ABSTRACT

The primary sources of capital funds in Minnesota are the local capital expenditure levy and school district bond sales. The state provides assistance to low-wealth districts by providing a capital expenditure equalization aid program and two types of loans under the Maximum Effort School Aid Law. It has been argued that the concepts of equal education and fiscal neutrality apply as much to facilities as to current operating costs. In Minnesota, tax rates related to capital expenditures vary among districts. Also varying are available revenue and debt capacity. State programs as currently formulated offer little to offset the disparities. The adequacy of Minnesota's educational facilities has not been well enough determined for an assessment to be made of the effects of state funding on achievement of adequacy. In determining whether and how to change Minnesota's capital financing policies, legislators must consider state goals, the state's facility needs, how those needs should be assessed and met, and the advantages and disadvantages of greater state involvement in capital financing. A brief discussion of programs in eight other states is included in the document for comparison. (Author/PGD)

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# PROBLEMS AND ALTERNATIVES IN CAPITAL FINANCING FOR MINNESOTA ELEMENTARY AND SECONDARY SCHOOLS

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DECEMBER, 1979

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## PREFACE

This report is about capital financing of school districts in Minnesota. It is written in response to questions that Minnesota Legislators have asked about the subject. It is the first time that this information has been gathered in one place. The paper is descriptive and analytical. It describes various financing programs here and in other states; it defines terms and offers direction for future study. In addition it analyzes in specific terms the two major questions that legislators have regarding capital financing: (1) Is it equitable among the school districts and (2) Is it adequate.

The Paper was developed and written by Alan Hopeman, Legislative Analyst in the Minnesota House of Representatives Research Department. He was assisted in every facet of work by Louis Smith, Research Assistant in the Department who labored long and hard on the concepts, data gathering and analysis, and writing of draft material. Legislators who have questions regarding this paper or capital financing of school districts in Minnesota should contact Alan Hopeman, Room 17 State Capitol, 296-7434.

Peter B. Levine,
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NOTES

## I. INTRODUCTION: WHY EXAMINE CAPITAL FINANCING?

The purpose of this paper is to assist legislators in understanding and evaluating capital finance in Minnesota school districts. Problems are identified and some alternative solutions set forth.

Most school finance discussions focus on the current operating portion of school budgets. This portion finances staff salaries, instructional materials, and building maintenance. Along with funds for pupil transportation and community education programs, operating funds constitute roughly 85 percent of the total expenditures for public elementary and secondary education in the U. S. These funds are usually spent for items and services consumed on an annual basis (and thus the term "current" expense).

The other 15 percent of the total expenditures addresses long-term capital needs--equipment and buildings. The purpose of this paper is to devote attention to the capital outlay component of school finance in Minnesota, including debt service. This paper will provide general background information for legislators, and examine relevant issues regarding the state role in capital financing.

There are several reasons to examine the capital outlay area in Minnesota school finance. First, educational facilities provided some Minnesota pupils appear to be inadequate. It is difficult to assess these deficiencies because no comprehensive facilities inventory exists, but some observers indicate that possibly as many as 100 school buildings in the state could be condemned as a threat to the health and safety of school children. This question of facilities adequacy is explored in detail below.

Secondly, some school districts appear to have inadequate sources of revenue for capital outlay. Some of these school districts have asked the Legislature for financial assistance in meeting critical building needs. Problems with the state's capital expenditure levy, capital expenditure equalization aid, and maximum effort school loan programs are discussed in this paper.

Finally, there is the question of equity. In some school districts, capital expenditure and debt service needs translate into extremely high mill rates, while other districts have mill rates at or near zero. School districts vary considerably in their ability to provide proper educational facilities for their pupils.

Chapter II of this paper describes the existing mechanisms. for financing capital expenditures in Minnesota school districts. The capital expenditure and debt service levies, capital expenditure equalization aid, and the Maximum Effort School Aid Law are explained.

Chapter III analyzes the existing capital finance structure with regard to problems of equity and adequacy. The equity analysis examines the degree to which unequal tax burdens in different school districts result from the existing structure. The discussion of adequacy explores the extent to which the current structure provides sufficient revenue for school districts to provide safe and productive educational environments for pupils. This chapter also addresses some lesser technical problems with the existing system.

Chapter IV contains a description of capital finance programs that exist in eight other states. The states were selected to present to legislators an overview of a wide range of capital finance programs.

Chapter V contains a brief discussion of the goals of capital financing. A number of general policy alternatives are also included. The House Research Department is ready to explore these alternatives in greater detail if legislators express such an interest.

## II. SOURCES OF CAPITAL FUNDS IN MINNESOTA SCHOOL DISTRICTS

The primary sources of capital funds in Minnesota are the local capital expenditure levy and school district bond sales. In addition, the capital expenditure equalization aid program and the Maximum Effort School Aid Law provide capital assistance to low-wealth school districts. Revenue from all four of these sources is used for similar purposes. For example, a building can be remodelled using either capital expenditure levy receipts, or receipts from a bond sale. All four revenue sources provide for school district capital needs in some way, and should be viewed as a unified system. This chapter will describe these four sources of revenue.

### Capital Expenditure Levy

For capital expenditures, districts may levy $80 per pupil unit, or $85 per pupil unit in growing districts, not to exceed ten EARC mills. Minnesota school districts collected $71,200,000 from the capital expenditure levy for the 1978-79 school year, and $67,600,000 for 1979-80. These funds can be spent only to purchase capital assets, to lease certain capital assets, and to make capital improvements and repairs.

For 1978 payable 1979 taxes, 338 districts, or 77 percent of the total, levied ninety-five percent of their allowable maximum for capital expenditures. The remaining 100 districts (23 percent) levied less than ninety-five percent of the maximum allowable.

### Capital Expenditure Equalization Aid

The state pays capital expenditure equalization aid to districts where a tax rate of ten EARC mills does not raise the full amount of the district's entitlement ($80, or $85 capital expenditure levy entitlement per pupil unit in growing districts). The aid is equal to the difference between $80 (or $85) per pupil unit and the ten EARC mill levy, and is paid only to districts which levy the full ten mills.

Debt Service Levy

Upon voter approval, school districts may issue bonds for capital improvements, and levy the amount needed to pay principal and interest on the bonds. The levy to pay for these bonds is known as the "debt service levy". Bonded indebtedness of school districts is limited by statute to ten percent of the actual market value of taxable property (and certain types of exempt property) within the district. Most districts have outstanding bonds totaling less than 20 percent of the legal maximum. For the 1979-80 school year, Minnesota school districts levied $122.8 million for debt service, a decrease of $4.4 million from the preceding year. Minnesota voters have rejected 35 of the last 64 school bond issues presented to them.

Maximum Effort School Aid Law

The Maximum Effort School Aid Law provides assistance to school districts which have such low property valuations that the levies required for debt service are excessive. A district qualifies for assistance only if a levy of 20 mills on EARC valuation is not sufficient to meet its debt service needs.

Two types of loans are available to districts under this law. "Debt service loans" are available annually to help pay annual principal and interest payments on bonds already issued by the district, and can be as large as one percent of the district's total bonded debt. "Capital loans" are available to supplement the proceeds of locally issued bonds to acquire sites for school buildings or to acquire, construct, remodel, equip, or furnish school buildings. Districts can obtain either or both types of loans.

*Debt Service Loans* In any year in which the levy required to meet a district's payments for principal and interest on outstanding bonds will exceed 20 EARC mills by the lesser of 10 percent or $5,000, the district may apply for a debt service loan. The loan is in the amount of the excess, but may not exceed one percent of the district's net debt. Every year after a loan is granted until all debts to the state are repaid, the district must levy the greater of (a) a 20 EARC mill levy, or (b) the levy required to meet its bond payments that year, less the amount of the debt service loan in that year. If the 20 EARC mill levy is the greater, the district must pay to the state the difference between it and the amount required for the districts' bond payments. The interest rate on debt service loans is set at 0.1 percent higher than the average annual rate payable on Minnesota school loan bonds, but no less than 3-1/2 percent per annum.

*Capital Loans* As noted above, capital loans are available to districts to finance site acquisition, construction, remodeling, and other costs associated with school buildings. Prior to the granting of a loan, the State Board of Education must certify that:

- The loan is needed to replace facilities dangerous to the health and safety of pupils, or to provide for pupils for whom no adequate facilities exist;
- such facilities could not be made available by consolidating the district with an adjacent district without substantially lowering the fiscal capacity of the district, or so increasing its area that it would no longer be viable;
- existing institutions or facilities within the area cannot be acquired or leased to provide the needed facilities safely and at a lower cost.

The question of whether to borrow funds for the maximum effort school loan fund must be submitted to the voters. If a majority of those voting on the question approve, the district may proceed to obtain the loan. The amount of capital loan allowable is the cost of the facilities minus the amount of bonds which the district can issue without incurring excessive debt. For this purpose, a district is assumed to incur excessive debt when the principal on its outstanding bonds exceeds its net debt limit (10 percent of market value) or 30 percent of EARC.

The following examples demonstrate the capital loan reduction scheme:

---

EXAMPLE A

(Wealthy School District)

| | |
|---|---|
| EARC Valuation | = $10,000,000 |
| Total Pupil Units | = 200 |
| EARC/P.U. | = $ 50,000 |
| Building Need | = $ 1,500,000 |
| Net Debt Limit | = $ 4,000,000 |

Capital Loan Amount:

| | | |
|---|---|---|
| 1. | Total Project Cost | = $1,500,000 |
| 2. | Plus outstanding bonds (if any) | + 0 |
| 3. | Minus net debt, or 30% x EARC, whichever is less | - $3,000,000 |

Loan Amount: -NO LOAN-

Amount of Local Bond Issue: $1,500,000 (project cost)

Annual debt service payments: (at 6.0% interest, 30 years) $ 108,913

Mill rate 10.89 mills

---

EXAMPLE B

(Poor School District)

| | | |
|---|---|---|
| EARC Valuation | = | $10,000,000 |
| Total Pupil Units | = | 1,000 |
| EARC/P.U. | = | $ 10,000 |
| Building Need | = | $ 5,000,000 |
| Net Debt Limit | = | $ 4,000,000 |

Capital Loan Amount:

| | | |
|---|---|---|
| 1. Total Project Cost | = | $5,000,000 |
| 2. Plus outstanding bonds (if any) | + | 0 |
| 3. Minus net debt, or 30% x EARC, whichever is less | - | $3,000,000 |
| Loan Amount | | $2,000,000 |

Amount of Local Bond Issue:

$3,000,000 (project cost - loan)

Annual debt service payments (at 6% interest, 30 years) $ 217,947

Mill rate 21.79 mills

The loans bear interest at the same rate as maximum effort debt service loans and the levying requirements are the same as for debt service loans, except that if a district's maximum effort capital loan is not fully repaid in this matter before 30 years have elapsed, the remainder of the loan is forgiven. Also, a district with a capital loan where the tax base has grown since the loan was obtained may levy the amount required to retire the capital loan within the 30-year time limit, rather than the full 20 EARC mills.

*Participation* At this time fourteen school districts are participants in the maximum effort program. Of these, seven have capital loans only, and three others have debt service loans only. The remaining four districts have both capital and debt service loans.

## III. PROBLEMS OF EQUITY AND ADEQUACY IN CAPITAL FINANCING

Problems with capital financing in Minnesota school districts center around the issues of equity and adequacy. The equity issue is whether Minnesota's capital outlay funding mechanism ought to be equalized to a greater extent than is now the case. The adequacy question is whether revenues available through existing funding mechanisms are sufficient to ensure that school buildings in all Minnesota school districts are safe and adequate. This chapter begins with a discussion of equity, and proceeds to an analysis of equity of tax rates, as well as equity of available revenues. The effect of capital expenditure equalization aid and the maximum effort program on equity are addressed. The chapter concludes with an exploration of the adequacy of school facilities in Minnesota, and of the programs that finance the cost of these facilities

### The Issue of Equity

Much school finance activity in Minnesota and elsewhere during the 1970's has drawn on the doctrine of fiscal neutrality--that is, the concept that the quality of a child's education cannot be a function of the property wealth of his school district. Applying this doctrine to non-operating expenses is complex simply because facility conditions, bonded indebtedness, and particular building needs are so diverse among school districts. Several scholars have argued, however, that equity of educational resources must also include equity of school facilities and equipment. William Wilkerson, Education Administration professor at Indiana University, has stressed the need for applying the fiscal neutrality rule to capital outlay, pointing out that a state's concentration on equalizing only current operation dollars unfairly favors districts with little or no construction or debt service needs.[3]

The Equity of Capital Funding in Minnesota

The equity of the present system of capital financing in Minnesota can be analyzed by examining the mill rates and available revenue for capital purposes in the districts across the state.

*Variations in Local Tax Rates* Tables 1 and 2 display the distribution of local effort, in terms of EARC mill rates, with respect to the capital expenditure and debt service levies. Table 3 shows the distribution of the combined debt service and capital expenditures levies.

TABLE 1

Frequency Distribution of Capital Expenditure Levies in Minnesota School Districts, for Taxes Payable in 1979.

| EARC Mill Rate | # of Districts |
|---|---|
| 10.00 (maximum) | 8 |
| 8.00 to 9.99 | 20 |
| 6.00 to 7.99 | 68 |
| 4.00 to 5.99 | 101 |
| 2.00 to 3.99 | 202 |
| 0 to 1.99 | 39 |
| | 438 |

State Average Weighted Mean = 3.96 mills
(weighted by pupil)

Maximum = 10.00 mills

Data Source: School Finance Equalization Management System
Minnesota House of Representatives Research Department.

Table 1 reveals that, while the average capital expenditure mill rate for the 1979-80 school year was approximately four mills, 39 districts levied at less than half that rate. Twenty-eight districts levied at least twice the average rate in order to meet their capital expenditure needs.

TABLE 2

Frequency Distribution of Debt Service Levies in Minnesota School Districts, for Taxes Payable in 1978.

| EARC Mill Rate | # of Districts |
|---|---|
| 20 or above | 13 |
| 15 - 19.99 | 18 |
| 10 - 14.99 | 53 |
| 5 - 9.99 | 134 |
| 0 - 4.99 | 220 |
| | 438 |

State Average Weighted Mean = 7.39 mills
(weighted by pupil)

Minimum = 0 (44 districts)
Maximum = 28.11 mills

Data Source: School Finance Equalization Management System
Minnesota House of Representatives Research Department

Table 2 is a frequency distribution of debt service levies for the 1978-79 school year. Again, wide disparities exist among school districts, with some making no debt service levies at all, and others making levies at a rate two and even three times the state average. Table 2 is not as simple to interpret as Table 1, however, for the reason that the mill rate variation in Table 2 reflects not only variable tax bases, but variable debt situations across school districts.

Table 3 shows the distribution of mill rates for the debt service levies and capital expenditure levies combined. This illustrates the variation among school districts in the effort required to fund total capital needs,

both long-term and short-term, for the 1978-79 school year.

TABLE 3

Frequency Distribution of Combined Debt Service and Capital Expenditure Mill Rates in Minnesota School Districts, for Taxes Payable in 1978.

| EARC Mill Rate | # of Districts |
|---|---|
| Over 30 mills | 5 |
| 25 - 29.99 mills | 9 |
| 20 - 24.99 mills | 28 |
| 15 - 19.99 mills | 53 |
| 10 - 14.99 mills | 102 |
| 5 - 9.99 mills | 170 |
| 0 - 4.99 mills | 69 |

| | |
|---|---|
| Minimum: | 0 (7 districts) |
| Maximum: | 36.32 mills |
| Mean: (unweighted) | 10.72 mills |

Data Source: School Finance Equalization Management System, Minnesota House of Representatives Research Department

Again, Table 3 shows substantial disparity in tax rates among school districts. This disparity is due partly to differences in wealth, and partly to the fact that districts are at different stages of the life cycle of school buildings.

*Variations in Revenue Available* In order to properly evaluate the equity of capital funding in terms of fiscal neutrality, the disparity due to wealth differences and the disparity due to mill rates must be separated. The question then becomes: Are districts receiving roughly equal amounts of revenue for a given amount of effort?

To answer this question, a measure was constructed which acknowledges the total dollars available per pupil unit, per mill of local tax effort.[4] This was derived for both capital expenditure and debt service revenues. To arrive at a figure for capital expenditure revenues, an estimate was formulated for the 1979-80 school year, combining revenue from each district's local levy with the amount of revenue from capital expenditure equalization aid. Table 4 displays the result in 20 percentile increments of pupils. Table 5 is a frequency distribution of the same measure.

TABLE 4

Estimated Capital Expenditure Revenue per Actual Pupil Unit per Mill of Effort for Minnesota School Districts, by Percentile of Pupils, 1979-80 School Year

| Percentile | $/P.U./Mill |
|---|---|
| (Minimum) | $ 8.11 |
| 20 | 13.25 |
| 40 | 17.61 |
| 60 | 21.47 |
| 80 | 29.83 |
| 100 (Maximum) | 276.09 |

Data Source: School Finance Equalization Management System, Minnesota House of Representatives Research Department

Table 4 shows, for example, that Minnesota pupils at the twentieth percentile reside in districts where one mill levied for capital expenditures will result in $13.25 per actual pupil unit in revenue, considering both levy and aid revenue. Table 4 also shows that in the least wealthy school district in the state, one mill raises $8.11 per pupil unit, while one mill in the wealthiest district raises $276.09 per pupil unit.

TABLE 5

Maximum Amount of Capital Expenditure Revenue
Raised Per Actual Pupil Unit for Each EARC Mill Levied,
Minnesota School Districts, 1979-80 School Year

| $/P.U. Mill | Pupil Distribution # of P.U.'s | Pupil Distribution % | School District Distribution # of Districts | School District Distribution % |
|---|---|---|---|---|
| 0 to $ 9.99 | 36,403 | 4.0 | 24 | 5.5 |
| $10 to 19.99 | 436,488 | 48.2 | 168 | 38.4 |
| $20 to 29.99 | 254,334 | 28.1 | 131 | 29.9 |
| $30 to 39.99 | 158,032 | 17.5 | 68 | 15.5 |
| $40 to 49.99 | 9,433 | 1.0 | 24 | 5.5 |
| $50 to 59.99 | 9,381 | 1.0 | 16 | 3.7 |
| Over $60 | 2,243 | .2 | 7 | 1.6 |

Data Source: School Finance Equalization Management System,
Minnesota House of Representatives Research Department

The frequency distribution in Table 5 of capital expenditure revenue per pupil unit per mill shows the number of districts within the specified ranges, as well as the number of pupil units in those districts. Nearly half the state's pupil units (48.2%) attend schools in districts which raise from $10 to $19.99 per pupil unit per mill of effort.

For debt service levies, the same measure--revenue per pupil unit per mill--was formulated for the 1978-79 school year. Bond sale and state loan receipts were excluded from the calculations, as debt service revenue per pupil per mill is a direct function of school district wealth. Table 6 displays the result in 20 percentile increments of pupils. Table 7 shows the frequency distribution of debt service revenue per pupil per mill for 1978-79.

TABLE 6

Debt Service Revenue Per Actual Pupil Unit Per Mill of Effort for Minnesota School Districts, by Percentile of Pupils, 1978-79 School Year

| Percentile | $/Pupil/Mill |
|---|---|
| (Minimum) | 0 |
| 20 | 11.63 |
| 40 | 15.40 |
| 60 | 18.14 |
| 80 | 24.85 |
| 100 (Maximum) | 212.13 |

Data Source: School Finance Equalization Management System, Minnesota House of Representatives Research Department

TABLE 7

Debt Service Revenue Raised per Actual Pupil Unit for Each EARC Mill Levied, Minnesota School Districts, 1978-79 School Year

| | Pupil Distribution | | School District Distribution | |
|---|---|---|---|---|
| $/P.U./Mill | # of P.U.'s | % | # of Districts | % |
| 0 to $ 9.99 | 117,668 | 12.5 | 62 | 14.2 |
| $10 to 19.99 | 509,186 | 54.1 | 196 | 44.7 |
| $20 to 29.99 | 222,121 | 23.6 | 128 | 29.2 |
| $30 to 39.99 | 83,736 | 8.9 | 38 | 8.7 |
| $40 to 49.99 | 6,991 | .7 | 10 | 2.3 |
| $50 to 59.99 | 271 | .02 | 1 | .2 |
| Over $60 | 1,102 | .1 | 3 | .7 |

Data Source: School Finance Equalization Management System, Minnesota House of Representatives Research Department

The measures of available revenue per pupil unit per mill of effort show that there would still be wide disparity in available revenues, even if school districts exercised equal effort for capital outlay. Coupled with the wide

distribution of the capital expenditure and debt service levies, this finding points to a fairly inequitable situation in terms of mill rates required to meet school capital needs.

*Variations in Debt Capacity and Tax Rates According to District Wealth*

An analysis of the debt situations of the twenty poorest, twenty wealthiest, and twenty median wealth districts indicates the influence of district wealth. Tables 8, 9, 10, and 11 display this debt analysis, with table 11 displaying the group means. The groups are determined using 1975 EARC per actual pupil unit. These means should be regarded carefully, since the groups are small, and the statistics can become distorted by a single extraordinary value.

Tables 8, 9, 10, and 11 reveal the inequitable advantage which wealthy districts possess. On the average, wealthy districts could legally issue bonds for over seven times the amount poor districts could issue, and, in fact, wealthy districts do issue almost double poor districts' amounts. In the event of future capital need, wealthy districts also have much greater "debt leeway." Finally, the inequity is shown by the greater debt service burdens which poor districts bear in contrast to average and wealthy districts.

## TABLE 8

## 1977-78 Debt Situations for Group "A": Poor Districts

| District Number | District Name | 77-78 Net Debt Limit /Tot. P.U. | 77-78 Bonded Debt /Tot. P.U. | "Debt Leeway"* (1-2) | 77-78 Debt Service Mills |
|---|---|---|---|---|---|
| 038 | Red Lake | 17 | - | 17 | 0.0 |
| 707 | Nett Lake | 33 | - | 33 | 0.0 |
| 692 | Babbit | 1,488 | 558 | 930 | 2.02 |
| 362 | Littlefork-Big Falls | 1,708 | 440 | 1,268 | 20.05 |
| 820 | Sebeka | 2,345 | 325 | 2,020 | 8.63 |
| 036 | Kelliher | 2,430 | 273 | 2,157 | 6.00 |
| 363 | South Koochiching | 2,171 | 1,300 | 871 | 22.65 |
| 032 | Blackduck | 2,217 | 414 | 1,803 | 8.10 |
| 566 | Askov | 2,241 | 647 | 1,594 | 17.21 |
| 440 | Middle River | 2,361 | 865 | 1,696 | 13.35 |
| 447 | Grygla-Gatzke | 2,741 | 1,548 | 1,193 | 23.98 |
| 147 | Dilworth | 2,359 | 339 | 2,020 | 8.48 |
| 091 | Barnum | 2,159 | 290 | 1,869 | 5.99 |
| 738 | Holdingford | 2,363 | 916 | 1,447 | 23.76 |
| 543 | Deer Creek | 3,012 | 128 | 2,884 | 6.47 |
| 821 | Henagha | 2,671 | 626 | 2,045 | 11.73 |
| 002 | Hill City | 2,316 | 99 | 2,217 | 2.23 |
| 789 | Clarissa | 3,029 | 250 | 2,779 | 6.51 |
| 790 | Eagle Bend | 3,056 | - | 3,056 | 0.0 |
| 694 | Buhl | 2,742 | 511 | 2,231 | 8.53 |

Data Source: Minnesota Department of Revenue, Minnesota Department of Education, and Minnesota House of Representatives Research Department.

*"Debt leeway" is the difference between a district's outstanding debt and its legal debt limit per pupil unit.

## TABLE 9

## 1977-78 Debt Situations for Group "B": Average Wealth Districts

| District Number | District Name | 77-78 Net Debt Limit /Tot. P.U. | 77-78 Bonded Debt /Tot. P.U. | "Debt Leeway"* (1-2) | 77-78 Debt Service Mills |
|---|---|---|---|---|---|
| 444 | Strandquist | 5,385 | - | 5,385 | 0.0 |
| 464 | Grove City | 5,720 | 779 | 4,941 | 6.81 |
| 001 | Aitkin | 5,352 | 2,365 | 2,987 | 15.97 |
| 182 | Crosby-Ironton | 5,134 | 1,702 | 3,432 | 12.26 |
| 403 | Ivanhoe | 5,705 | 339 | 5,366 | 3.39 |
| 549 | Perham | 5,884 | 281 | 5,603 | 2.78 |
| 013 | Columbia Heights | 4,560 | 739 | 3,821 | 7.15 |
| 637 | Redwood Falls | 4,925 | 265 | 4,660 | 5.00 |
| 832 | Mahtomedi | 4,622 | 1,493 | 3,129 | 10.75 |
| 418 | Russell | 5,978 | 228 | 5,750 | 4.23 |
| 763 | Medford | 5,914 | 459 | 5,455 | 4.19 |
| 861 | Winona | 5,042 | 615 | 4,427 | 5.95 |
| 604 | Mentor | 5,685 | - | 5,685 | 0.0 |
| 621 | Mounds View | 4,562 | 1,186 | 3,376 | 7.95 |
| 229 | Lanesboro | 6,169 | 520 | 5,649 | 5.37 |
| 238 | Mabel-Canton | 6,066 | 69 | 5,997 | 2.33 |
| 057 | Beardsley | 5,435 | 83 | 5,352 | 5.83 |
| 208 | Evansville | 5,837 | 442 | 5,395 | 6.34 |
| 876 | Annandale | 5,402 | 671 | 4,731 | 7.05 |
| 548 | Pelican Rapids | 6,182 | 1,197 | 4,985 | 11.81 |

Data Source: Minnesota Department of Revenue, Minnesota Department of Education, and Minnesota House of Representatives Research Department

*"Debt leeway" is the difference between a district's outstanding debt and its legal debt limit per pupil unit.

## TABLE 10

### 1977-78 Debt Situation for Group "C": Wealthy Districts

| District Number | District Name | 77-78 Net Debt Limit /Tot. P.U. | 77-78 Bonded Debt /Tot. P.U. | "Debt Leeway"[a] (1-2) | 77-78 Debt Service Mills |
|---|---|---|---|---|---|
| 079 | Amboy-Good Thunder | 11,850 | 407 | 11,443 | 1.76 |
| 600 | Fisher | 14,357 | 267 | 14,090 | 1.28 |
| 081 | Comfrey | 11,735 | 87 | 11,648 | 4.75 |
| 084 | Sleepy Eye | 11,637 | 169 | 11,468 | 0.91 |
| 726 | Becker | 10,537 | 8,254 | 2,283 | 22.58 |
| 453 | East Chain | 14,957 | 468 | 14,489 | 1.84 |
| 592 | Climax | 14,839 | 398 | 14,441 | 2.27 |
| 669 | Magnolia | 13,532 | 180 | 13,352 | 0.91 |
| 636 | Morgan | 12,518 | 847 | 11,671 | 2.51 |
| 507 | Nicollet | 23,589 | 84 | 12,505 | 0.0 |
| 427 | Winsted | 12,220 | 869 | 11,351 | 2.58 |
| 218 | Delavan | 14,559 | - | 14,559 | 0.0 |
| 457 | Trimont | 16,356 | 905 | 15,451 | 3.64 |
| 581 | Edgerton | 14,079 | 1,688 | 12,391 | 5.08 |
| 326 | Okabena | 16,890 | 82 | 16,808 | 2.05 |
| 220 | Frost | 16,119 | - | 16,119 | 0.0 |
| 256 | Red Wing | 13,705 | 1,137 | 12,568 | 4.21 |
| 354 | Kennedy | 15,027 | 356 | 14,671 | 1.94 |
| 352 | Humboldt-S.V. | 17,865 | - | 17,865 | 0.0 |
| 815 | Prinsburg | 78,435 | - | 78,435 | 0.0 |

Data Source: Minnesota Department of Revenue, Minnesota Department of Education, and Minnesota House of Representatives Research Department

[a]"Debt leeway" is the difference between a district's outstanding debt and its legal debt limit per pupil unit.

## TABLE 11

### Debt Situation, 1977-78 Group Means

| | | 77-78 Net Debt Limit /Tot. P.U. | 77-78 Bonded Debt /Tot. P.U. | "Debt Leeway"[a] (1-2) | 77-78 Debt Service Mills |
|---|---|---|---|---|---|
| Group A: | Poor Districts | 2,182 | 476 | 1,706 | 9.78 |
| Group B: | Average-Wealth Districts | 5,477 | 671 | 4,806 | 6.26 |
| Group C: | Wealthy Districts | 17,190 | 809 | 16,380 | 5.83 |

[a]"Debt leeway" is the difference between a district's outstanding debt and its legal debt limit per pupil unit.

*Equity and Capital Expenditure Equalization Aid* Capital expenditure aid constitutes less than one-half of one percent of available capital expenditure revenues. This state aid has had a very limited effect on equalizing tax burdens among school districts. Moreover, each year less aid is paid under this formula.

Because property valuations have risen and the capital expenditure mill rate has not been altered by the Legislature, there are fewer districts each year that are eligible for capital expenditure equalization aid. More and more districts are able to collect their full capital expenditure entitlement with a levy of ten mills or less. Thus, in 1977-78, the first year capital expenditure equalization aid was paid, 41 school districts were eligible to receive a total of $550,000 in aid. Current projections indicate that, by the 1981-82 school year, only two school districts will be eligible to receive this aid, totaling $120,000, if the aid formula remains unchanged.

The required local effort of ten EARC mills could be reduced at a relatively small state cost. If the mill rate were reduced to between 5.5 to 6.0 mills, the state aid obligation would not be greater than the $550,000 appropriation that was made for the first year of the program in 1977-78. A precise cost estimate cannot be made until the 1979 EARC values are available in the spring of 1980. Meanwhile, however, the following cost estimates illustrate the levels at which the mill rate could be set:

- If EARC valuation in qualifying districts rises by ten percent, a mill rate of 6.0 would cost $536,000 in state aid.
- If EARC valuation in qualifying districts rises by 15 percent, a mill rate of 5.75 would cost $530,000 in state aid.
- If EARC valuation in qualifying districts rises by 20 percent, a mill rate of 5.5 would cost $536,000 in state aid.

*Equity and Maximum Effort* The maximum effort program has certainly assisted some school districts in meeting their building needs. However, as with capital expenditure equalization aid, the state's financial commitment via this program has been modest. A total of less than $20 million has been loaned to districts over the last decade.

Moreover, it is important to note that the maximum effort program is a loan program, not an aid program. Maximum effort loans do not normally alter the local share of capital costs, but instead serve to spread a district's debt burden over a greater span of time.

The Question of Adequacy

Another major question regarding capital outlay funding in Minnesota is whether school facilities are safe and adequate. This is difficult to assess in Minnesota, however, because comprehensive data on the condition of school facilities is not collected at the state level. In addition, there are changing definitions of "adequacy" as school districts struggle to surmount rising energy costs, accommodate the newly-recognized needs of the handicapped, and the like.

*State Data* The Bureau of Field Studies and Surveys, College of Education at the University of Minnesota has proposed a "Plant Facility Profile" as part of a proposed "Minnesota School District Monitor System." Its proposal notes that:

> while plant facilities constitute an important part in educational governance/management considerations, there has been little involvement at the state level. This low level of involvement has stemmed from laws which make plant financing and construction primarily the responsibility of local boards of education. Historically the limited involvement of the State in financing school construction has drastically reduced the need for plant facility data at the state level.[5]

The Minnesota Department of Education does not maintain a school facilities inventory, based primarily upon the reasoning outlined above. The state's limited financial role in capital outlay does not justify expense and effort of a school facilities survey. The Department of Education does have authority to require the submission of all capital improvement project plans for review and approval (M.S. 121.15, and 5 MCAR §1.0420-1.0425). Some data is acquired through this process, but it is not comprehensive.

The Minnesota Legislature has required school districts to prepare energy assessment reports on all heated school buildings by December 31, 1979. These reports may contain significant information regarding the condition of school facilities. However, since the reports are not oriented toward pupil safety or educational adequacy, any information that could be gleaned from the reports in this regard would likely be sporadic. Further, the Education Planning Task Force reports, submitted by each Educational Cooperative Service Unit, contain a section which covers projection of future facility needs. However, to date, this section of the reports has not been uniformly detailed, and sufficient data is not contained in them to enable one to project statewide facility needs.

*Pupil Safety* According to the Department of Education's School Facilities Director, there are as many as 100 school buildings in the state which could presently be condemned for either fire or structural safety reasons, despite the fact that one-third of the capital projects approved by the Department of Education in 1978-79 were for building repairs. Without a facilities survey to document such cases of inadequate or unsafe conditions, this situation will be left for school boards to contemplate.

The question of local versus state responsibility for pupil safety is a grey one. A broad interpretation of state responsibility has been constructed--

though not yet enforced by a court--in New Jersey, where the Attorney General has held that:

> under the Education Clause of the State Constitution and the Public School Education Act of 1975, the Commissioner and State Board are authorized to direct a local district to undertake a capital project where such a project is deemed essential to a constitutionally mandated thorough and efficient educational system even though the issuance of bonds for such expenditures may have been disapproved by the voters.[6]

While Minnesota courts may not necessarily subscribe to such an interpretation of state responsibility for the adequacy of school facilities, the basis for that interpretation--New Jersey's constitutional guarantee of a "thorough and efficient educational system"--exists in Minnesota law as well. Indeed, the question of whether or not an adequate school facility is an integral and mandatory component of a child's education remains an untested issue in school finance.

Another aspect of pupil safety deserves mention here. The U. S. Environmental Protection Agency in recent months has discovered that between 1940 and 1973, many school buildings in this country were constructed with exposed asbestos building materials. These materials are now deemed to be a danger to pupils' health. The questions of liability, of federal involvement, and even whether such buildings exist in Minnesota have yet to be resolved, but it is possible that major strucutural alterations will be necessary in some Minnesota school buildings. The Environmental Protection Agency has indicated its intention to propose rules to control hazardous asbestos materials in schools.

*Level of Construction Activity* Table 12 summarizes the capital projects which were approved by the Department of Education in 1978-79. According to the School Facilities Director at the Department of Education, the 216 projects undertaken in that year was unusually large. This activity does

not appear to be related to enrollment increases--only 17 percent of the projects will provide additional classroom space.

TABLE 12

1978-79 Capital Improvement Projects Approved by the Department of Education

| Type of Project | Number | % of Total |
|---|---|---|
| New Building | 9 | 4% |
| Additions - Remodeling | | |
| Classroom | 29 | 13% |
| Non-Classroom | 47 | 22% |
| Building Repairs | 71 | 33% |
| Program-Related | 32 | 15% |
| AVTI | 28 | 13% |
| | 216 | 100% |

Data Source: Minnesota Department of Education and Minnesota House of Representatives Research Department.

*Adequacy and Net Debt Limits* Because of incomplete knowledge at the state level regarding school district building needs, it is not possible to say whether the system of local bonding for school construction fully enables all school districts to construct adequate facilities. As a practical matter, voters' unwillingness to approve bond issues may prevent a school district from improving its facilities. However, the only legal impediment to passage of a bond issue is the limit on net debt. No school district can incur bonded indebtedness in excess of this limit, which is set at 10 percent of the market value of taxable property in the district. Certain types of personal property, formerly taxable but now exempt (e.g., livestock, inventories, etc.), is also included in the districts market value for this purpose.

The frequency distribution in Table 13 shows this relationship between school district bonded debt and legal capacity (net debt limit). Table 13 reveals that 67% of school districts are bonded only to 20 percent of capacity or less. There was one district which appeared to have issued bonds in excess of its authorized capacity in 1977-78. By 1978-79, however, this district's property tax base had grown enough that the district is no longer in violation of this restriction on bonded indebtedness.

There are a number of districts which would approach their net debt limits if construction of new schools were undertaken. However, the maximum effort program is designed to assist such districts, and if adequately funded, can alleviate any problems caused by the net debt limit.

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TABLE 13

Frequency Distribution of Minnesota School Districts' By Bonded Indebtedness as Percent of Legal Limits, For the 1977-78 School Year

| Bonded Debt As Percent of Limit | # of Districts | % of Districts |
|---|---|---|
| 0 - 19.99% | 293 | 67% |
| 20 - 39.99% | 101 | 23% |
| 40 - 59.99% | 31 | 7% |
| 60 - 79.99% | 11 | 2% |
| 80 -100% | 3 | 1% |

Minimum: 0(42 districts)
Maximum: 107%(1 district)

Data Source: Minnesota Department of Revenue, Minnesota Department of Education, and Minnesota House of Representatives Research Department.

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*Adequacy of Capital Expenditure Levy* Again, because of incomplete knowledge at the state level regarding school district capital needs, it is difficult to assess the adequacy of the capital expenditure levy. However, it is clear that some districts will experience reduction in their maximum allowable capital expenditure levies because of changes made in the law in 1979. First, the definition of "pupil unit" for the purpose of this levy was altered. Formerly, "total pupil units" had been used, including AFDC, support and growth units. However, beginning with the levy for the 1980-81 school year, support and growth units will no longer exist and will be excluded from these calculations. Secondly, the levy allowance, which had been $75 per pupil unit ($80 in fast growth districts), was raised by $5 in each case.

The effect of the first change was to reduce capital expenditure revenue available to school districts, while the effect of the second change was to increase the amount of revenue available. In most districts, the net effect is that the two changes will approximately cancel one another, so that the available revenue will change very little. Statewide, the available revenue will increase by less than one percent. However, some districts with rapidly declining enrollments may experience revenue reductions as great as six to seven percent.

*Adequacy of Maximum Effort Program* There are three current problems with the maximum effort program that curtail the program's effectiveness. First, the loan fund is depleted; second, the mill rate has not been adjusted to compensate for inflated EARC values; and third, the maximum effort loan formula sometimes disqualifies needy districts from capital loans.

The most immediate problem is the status of the state bond fund which finances the loans. Of the $20,000,000 which the Legislature authorized in 1969 for the sale of bonds for purposes of the maximum effort program, approximately $1,100,000 remains. If the Legislature chooses to continue the program, an additional bond authorization will be needed. Such an authorization requires a three-fifths vote in both the House and Senate for passage, pursuant to the Minnesota Constitution, Article XI, Section 5, Clause (a).

There is also some question whether the maximum effort program is really useful for school districts with significant capital needs. The 20 EARC mill levy, which is required of participants, may discourage districts from participation because it is too great a tax effort. As shown in Table 2 on page 11, 80 percent of the school districts had debt service levies below ten mills for taxes payable in 1978, and only 13 districts levied at the maximum effort debt service rate of 20 mills (or more). Reducing the maximum effort debt service levy from 20 mills to some lower figure would reduce the debt service property tax burden for participating low-wealth districts with capital needs. The mill rate for basic maintenance has been steadily reduced as adjusted assessed valuations have increased, but corresponding changes in the maximum effort 20-mill levy have not been made.

The loan computation for capital loans may also be an obstacle to school districts. The objective of the loan formula, as mentioned in Chapter II, is to reduce the state's loan to a district if the district can comfortably bond for some of the cost. However, the level of local bonding required may be so great that districts are not eligible for maximum effort capital loans, even though their debt service mill rates are well in excess of 20 EARC mills. The effect of the formula is that in order to qualify for a

capital loan, a district must issue bonds for an amount equal to the lesser of either its net debt limit, or 30 percent of its EARC valuation. (For at least eighty percent of the school districts, 30 percent of EARC was the lesser amount in 1977-78.) Lowering the 30 percent figure would serve to increase the amount the state would loan, and decrease the amount for which the district would have to issue bonds.

If the loan formula reduces a district's capital loan such to a point that the local bonding required would entail a levy of 20 mills or more, the district can still obtain a debt service loan. However, this is less desirable than obtaining a capital loan, because the debt service loan must be renewed each year. A district could find that the loan fund had been depleted, and would not be able to obtain a debt service loan in a year when it needed and expected the loan.

## IV. CAPITAL FINANCE PROGRAM IN OTHER STATES: EIGHT EXAMPLES

Thirty-three states had capital outlay or debt service support programs of some type as of 1979.[7] This chapter consists of a review of programs in eight of these states. Legislators who are interested in modifying Minnesota's capital finance programs may find these examples useful. The eight state programs were selected on the basis of the variety in extent and types of capital support they provide.

### Florida

*Funding Program* Capital outlay and debt service are primarily funded by the state, though districts can hold referenda to exceed state support with local property taxes. This local effort comprised 22 percent of non-operating dollars in 1977-78. State support comes via both bonding and direct appropriations and is distributed through two major programs. The School Capital Outlay and Debt Service Program, part of the state constitution, pays $600 times the number of student stations the district had in 1967-68, plus $800 for each unit increase since that base year. The Public Education Capital Outlay Program is a legislative program which distributes funds on the basis of need, using such factors as the number of unhoused students, credit for local bond issues, particular program needs, and building depreciation. Total state support for capital outlay and debt service for the 1977-78 school year was over $200 million.

Florida's declaration of legislative intent in capital financing embraces the concept of fiscal neutrality, as follows:

> The intent of the Legislature is: (1) to guarantee to each student in the Florida public education system the availability of an educational environment appropriate to his educational needs which is substantially equal to that available to any similar student, notwithstanding geographic differences and varying economic factors. .[8]

*Administration* The State Department of Education has an Office of Educational Facilities Construction which administers the Comprehensive School Construction and Debt Service Program. The office monitors capital need by conducting a complete capital facilities survey in each school district every five years. Districts are required to submit long-range plants which are reviewed and approved or disapproved by the office. Similarly, any capital outlay project which costs over $50,000 must be approved by the office. The office has developed and maintained a mandatory uniform building code. All educational facilities must conform to state standards regarding pre-fabrication, sanitation, health, safety, accessibility for the handicapped, energy performance, life-cycle cost, and utilization of solar energy. Also, the State Board of Education is required to provide modular, relocatable facilities to districts with immediate but unstable facilities needs.

Illinois

*Funding Program.* In 1973, the Illinois legislature passed the School Construction Bond Act, which authorized $420,000,000 in state bonds to provide funds for capital facilities and debt service grants to school districts. The proceeds of the bonds are to be used in the following manner:

(a) $300,000,000 for capital facilities program planning assistance and projects.

(b) $100,000,000 for debt service payments on bonds issued by school districts after January 1, 1969.

(c) $20,000,000 for reimbursement to school districts for special education facilities projects.

Grants for capital facilities planning assistance and projects are computed by multiplying the Recognized Project Cost (as determined by the Capital Development Board, see *Administration*) by the school district's Grant Index, determined as follows:

$$\text{Grant Index} = 1 - \frac{\text{district's equalized value/pupil unit}}{\text{equalized assessed value/pupil unit of district at 90th percentile}}$$

No Grant Index for any district is less than .20, nor more than .70. Debt Service Grants are determined by multiplying the school district's Grant Index by 50 percent of the principal and interest due and payable during the current fiscal year. The local debt service levy is reduced by the amount of the grant. The amount paid for capital facilities planning assistance grants cannot exceed 2 percent of the total grants for school construction.

*Administration* School districts may apply to the State Board of Education for Planning Assistance, School Construction Project, and Debt Service grants. A School Construction Project encompasses the entire building process and all associated costs. Planning Assistance involves the development of a School Construction Project program for design implementation. Upon applying for a grant, the school district must submit a "District Facility Plan," outlining present and future facilities needs, based upon programming, enrollment, and financial resources. If the plan meets the guidelines established by the State Board of Education, and is subsequently approved, the State Board then certifies the districts' grant entitlement to the Capital Development Board. The State Board of Education has standards for conferring priority on projects which facilitate consolidation, or rebuild or replace facilities damaged by natural disaster.

Maryland

*Funding Program* Maryland has funded school construction with state bonds since 1971. Initially, aid requests far exceeded available funds, but in 1977 responsibility for the cost of architectural and engineering fees was returned to the local districts, and this problem was minimized. Local districts pay for architectural and engineering fees, site acquisition and development, and the costs for furniture and equipment which exceed a state-determined percentage allowance.

The state also pays a fixed amount for building renovation determined as follows:

$$\text{Replacement cost} = \text{area of the school building over 40 years old} \times \text{current cost per square foot.}$$

Replacement cost may not include demolition costs, site development, architect or engineering fees, or air conditioning.

Maryland appropriated $62 million for school construction for the 1979-80 school year, which brings the total state contribution to $1.28 billion since 1971. The state's share in the total cost of school construction ranges from 85 percent to 92 percent.

*Administration* The Maryland Department of Education has an office of school construction which oversees the program, and assists the Board of Public Works in determining approved construction or capital improvement costs for school buildings. The Board of Public Works has rules and regulations for school construction which require school district development and submission of long-range (five-year) plans and annual and special project plans.

Massachusetts

Massachusetts has provided financial assistance to school districts for school building construction since 1948. The program has been subsequently amended to include funding for reconstruction, remodeling, and repairs.

*Funding Program* An "approved school project" can include construction, purchase of existing structures, site acquisition, original equipment and furnishings, as well as reconstruction, remodeling, or enlargement of existing school buildings. State payments for reconstruction, however, cannot exceed one-third of the expenditure for new construction in the previous year. Regional school districts (districts which are comprised of two or more cities or towns) are eligible to also receive reimbursements for architectural, engineering, and/or planning fees.

The state pays the total grant to the school district in annual payments of at least five equal parts. A city or town school district may choose to issue bonds or notes, to be paid in less than 20 years, for an amount not to exceed the estimated grant (unless the excess is authorized by the emergency finance board). If the district does issue bonds or notes for the project, the total grant is divided into a number of annual payments which equals the number of years the debt is outstanding.

The grant amounts for approved school construction projects are determined as follows:

(a) a grant for a project in a city or town school district is equal to

$$50\% \times \text{final approved cost} \times \frac{\text{state average equalized valuation per child}}{\text{district's equalized valuation per child}}$$

provided the grant covers not less than 40 percent, nor more than 65 percent of the final approved cost which consists of interest, and the remainder of the grant is not less than 50 percent, nor more than 65 percent of the final approved cost excluding the interest;

(b) a grant for a project in a regional school district with grades K-12 is equal to: 60 percent x final approved cost x property wealth ratio*; provided no grant covers less than 60 percent, nor more than 75 percent of the final approved cost;

(c) a grant for a regional school district which does not include grades K through 12 is equal to 50 percent x final approved cost x property wealth ratio*; provided no grant is less than 50 percent, nor more than 65 percent of the final approved cost;

(d) a grant for a project in a county school district is equal to 50 percent of the final approved cost.

The total state aid for school building construction and reconstruction in the 1977-78 school year was $109.7 million.

*Administration* The State Board of Education acts as a building assistance commission to provide planning assistance and approve grants for school construction projects. The board reviews applications to determine whether proposals are in the best interests of the commonwealth and school district. Availability of funds, the state's priorities for school projects, and the state's construction procedures and standards are taken into consideration. Projects' priorities are mandated by statute in the following order: (1) projects needed to replace or renovate a building which jeopardizes the safety of school children, (2) projects needed to prevent severe overcrowding, (3) projects needed to prevent loss of accreditation, and (4) projects needed to replace obsolete buildings in order to provide the full range of required programs. A separate and distinct priority list is developed for projects ordered or approved by a court as necessary for desegregation purposes.

Construction standards and procedures encompass such things as minimum space requirements, program standards, and cost standards. The school district is not precluded from developing and constructing facilities which exceed the minimum standards, though such additions cannot be included in the determination of approved cost for purposes of the grant.

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* Same as in (a): $\frac{\text{state average equalized valuation per child}}{\text{district's equalized valuation per child}}$

New Jersey

New Jersey supports debt service and capital outlay by paying the amount of a district's net debt service and budgeted capital outlay budgets for the preceding year, multiplied by the district's current expense state support ratio. The support ratio is the greater of (1) district equalized valuation per pupil divided by the guaranteed valuation per pupil, subtracted from 1.0000, or (2) district equalized valuation per pupil divided by the guaranteed valuation per pupil, multiplied by 10 percent. Budgeted capital outlay is the smaller of either the budgeted capital outlay for the preceding year, or one and one-half percent of the sum of current expense and budgeted capital outlay for the preceding year. State support for debt service and capital outlay for the 1979-80 school year totals $58,099,995, for a state share of 28 percent.

New York

*Funding Program* New York provides funding for capital outlay as a component of its basic support program. The state determines the local districts' approved capital expenditure costs and apportions aid through the following formula:

$$\text{State Aid} = \text{Approved Costs} \times \left[1.0 - \left(\frac{\text{full valuation per pupil unit}}{\text{state average full valuation per Pupil Unit}} \times .51\right)\right]$$

Approved expenditures can be for a variety of construction, reconstruction, or acquisition costs. Approved expenditures are limited by the following cost allowance schedule:

1. For new construction or existing structure purchase:

   $1,000 for a building or addition housing grades K-6
   $1,400 for a building or addition housing grades 7-9
   $1,500 for a building or addition housing grades 7-12

2. If the district also has costs for site purchase, original furnishings, equipment, etc., the cost allowances for new construction and existing structure purchase can be increased by 20 percent for buildings housing grades K-6, and 25 percent for buildings housing grades 7-12.

*Administration.* Initial decisions about school building construction or reconstruction rest with the local school district board. The local district may request consultation from the Educational Facilities Planning Section of the State Department of Education. Upon deciding to initiate a school building construction, reconstruction, or alteration project, the district must engage the services of a state-registered architect to develop the building plans. These plans must adhere to a state school building code. The plan is then submitted to the Educational Facilities Planning Office for review and approval. This office checks the plan against the district's long range educational plan (required by the state for every district) and the state building code, and considers such factors as enrollment projections, the adequacy of existing facilities, etc. If the plan is approved, the office then recommends to the Commissioner of Education for aid eligibility.

Utah

The Utah School Building Equalization Act of 1977 (a revision of a program firs enacted in 1959) was designed to provide financial assistance to districts where the cost of meeting school plant needs exceeds locally available financial resources The state maintains a survey of capital outlay and debt service needs, maintains certain school building standards, and assists in the planning of capital outlay programs

*Funding Program* State financial assistance comes through a foundation formula which provides the greater of either "continuing aid" or "critical need aid" in the following manner:

Continuing aid = [(A x B) + C] - D

where, A = 15 percent of the weighted pupil formula allowance for the previous school year ($119 for 1979-80),

B = number of weighted pupil units in the current school year,

C = 40 percent of bonds redeemed in the current year, not to exceed 4 percent of the district's bonding limit, and

D = local levy of 13.5 mills.

Critical need aid = (X + Y) - Z

where X = 33 percent of the district's current unmet critical building need,

Y = full debt service for the current year, not to exceed 10 percent of the district's bonding limit, and

Z = local levy of 18 mills.

The appropriation for aid for the 1979-80 school year is $13.2 million. Utah's state share for capital outlay financing is roughly 10 percent.

*Administration.* The state board of education conducted a statewide school building survey in 1975. This is updated each year, particularly for the purpose of determining critical building needs--in terms of life safety deficiencies, inadequacy of classrooms or other education space, overcrowding, etc. In addition, the local districts are required to submit comprehensive school building plans every five years.

Wyoming

Wyoming has an annual capital construction entitlement program which follows a foundation formula:

$$\text{Entitlement} = \begin{matrix}(\text{total classroom units} \times \$3{,}200) - \\ (4 \text{ mills} \times \text{current assessed value})\end{matrix}$$

The entitlements may be accumulated in a savings account for future capital needs, or spent to retire bonded debt, to acquire and develop building sites, to repay state loans, or to renovate, repair, or improve an existing building.

If the cost of a district's construction project exceeds 80 percent of its bonding capacity, the district is eligible to receive up to seven years of advance entitlements. The advance is paid from the permanent Wyoming mineral trust fund. Districts must have secured prior voter approval for bonding for the entire cost of the project, including the amount of the advance.

# V. ALTERNATIVE SOLUTIONS

The preceding chapters have described capital outlay financing in Minnesota schools and identified some problem areas, including the problem of insufficient knowledge of building adequacy on a statewide basis. The purpose of this chapter is to outline some of the general and specific policy options available to legislators and to help them decide whether the system needs a major overhaul, a minor tune-up, or perhaps no alteration whatsoever.

## What Are Minnesota's Goals with Regard to School Capital Financing?

The selection of specific policies depends upon the relative importance of a number of general goals. Most legislators would probably include some of the following in their own lists of goals for capital outlay financing:

- Assurance of safe, adequate facilities in each school district.
- Efficient and cost-effective use of public funds, whether of local or state origin.
- Equality of educational opportunity (in this case, in terms of educational environment) for school children.
- Equality of tax burden for taxpayers with similar financial characteristics.
- Local control of education facilities decisions.

It is clear from the analysis in Chapter III that the present method of capital financing in Minnesota results in considerable disparity of tax burdens in different jurisdictions. This may not be undesirable, especially if the goal of local control ranks high among legislators, and if the two goals are deemed to be in conflict with one another.

What Are Minnesota School Facilities Needs?

At this juncture, it is difficult to make even a cursory assessment of building needs in Minnesota school districts, based upon available data. One of the first determinations that legislators must make is whether existing data is sufficient for making other major policy decisions. If further information is needed, some of the following questions arise:

- Should a comprehensive inventory of school facilities be conducted in Minnesota?
- If so, who should conduct it--the Department of Education, local school districts, or some other entity?
- What is an "adequate" school facility?
- Are there regional differences in construction and site acquisition costs which should be considered in the capital financing picture?
- How do construction and equipment costs vary with the type of educational program?
- Should special factors be considered (e.g., sparsity or density, racial balance, or school district organization)?

How Should Minnesota's School Facilities Needs be Met?

There are many conceivable ways in which capital outlay financing can be provided, as indicated by the various courses different states have charted. Some of the options that could be considered include:

- The existing Minnesota system of local financing;
- the existing system, but with minor modifications to the capital expenditure equalization aid program, such as reducing the levy to 6 mills;
- the existing system, but with modifications to the maximum effort program;

- a foundation program, similar to the capital expenditure equalization aid program, but for debt service;
- a broader foundation program that would aid both capital expenditure and debt service;
- a state bonding program, on a grander scale than the maximum effort program;
- a program of one-time special grants for high priority or crucial projects;
- full state funding.

With specific regard to the maximum effort program, a renewed bonding authorization will be necessary if the program is to continue to function. The amount of the authorization needed will depend upon whether the program is modified at the same time, either by reducing the maximum effort mill rate, or increasing the state loan portion and decreasing the required local bonding effort.

One other question which merits consideration is whether any contemplated new program should recognize school districts' existing debt. To do so would include districts which had already financed major capital projects.

What Are the Advantages and Disadvantages of Greater State Involvement in Capital Financing?

It hardly needs to be said that there would be both advantages and disadvantages if the state's role in school capital financing were enlarged. A list of advantages might include the following:

- More equal facilities and better overall educational environment.
- Better coordination of long-range plans or needs.
- Efficiency and cost reduction (e.g., architectural fees, bond rates).
- Greater degree of pupil safety.

On the other hand, some disadvantages might be:

- Loss of local control.
- Cost of a major new program, and its effect on the state budget.
- Less efficient use of "cheap" or "free" state money by school districts.
- Protracted length of time required for review process.

NOTES

[1] Hatley, Richard V., and Frank L. Croskey, "Socioeconomic Variables as Predictors of School Financial Referanda Voting Behavior," Journal of Education Finance, Vol. 2, Spring 1977, No. 4, pp. 481-498.

[2] Records compiled by the Minnesota School Boards Association.

[3] Wilkerson, William R., "Problems and Issues of Fiscal Neutrality in Financing School Construction," paper for the School Finance Task Force, U.S. Office of Education, H.E.W., June, 1973, p. 21.

[4] This measure is utilized by John Augenblick, in "Systems of State Support for School District Capital Expenditures," Education Finance Center, Education Commission of the States, Report No. F76-8, May 1977.

[5] "Proposed Profiles for the Minnesota School District Monitor System," a study for Minnesota Department of Education and Education Management Services, by the Bureau of Field Studies and Surveys, College of Education, University of Minnesota, Charles Sederberg, Director, June 1978.

[6] State of New Jersey, Attorney General's Formal Opinion No. 26-1977, December 23, 1977.

[7] "School Finance at a Fourth Glance," Education Commission of the States, May 1979.

[8] Florida Statutes Annotated, §235.002.

MINNESOTA HOUSE OF REPRESENTATIVES

RESEARCH DEPARTMENT

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